

**TERRIL
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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TERRIL COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2008 Election)

Larry Flaherty	President	2010
Galen Chicoine	Vice President	2008
Eugene Buhr		2010
Chelle Bisenius		2008
Tim Roth		2009

(After September 2008 Election)

Larry Flaherty	President	2011 *
Galen Chicoine	Vice President	2011
Eugene Buhr		2009 *
Chelle Bisenius		2009
Tim Roth		2009

School Officials

Dan Mart	Superintendent
Karen Oleson	District Secretary/ Treasurer

- * Board term extended/shortened per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Terril Community School District, Terril, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

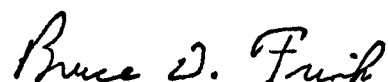
We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Terril Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2010 on our consideration of Terril Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 23 and 42 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Terril Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the three years ended June 30, 2005 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

February 22, 2010

TERRIL COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Terril Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The 2008-09 school year marked the second year of a three year renewed whole grade sharing agreement with Graettinger Community School District. A new grade alignment was established with all of Terril's high school students (grades 9 to 12) and lower elementary (kindergarten to 2nd grade) going to Graettinger. In turn, all of Graettinger's students in grades 3 to 8 were bussed to Terril.
- The Prairie Lakes AEA board approved a petition for reorganization in October, 2008. Twenty-six land owners petitioned to have their property removed from the proposed Graettinger-Terril School District. The AEA did not approve any petitions. On December 2, 2008, Terril and Graettinger voters approved a reorganization to take effect July 1, 2010. In Terril, 63.27 percent of the voters approved the merger; 96.89 percent of Graettinger voters approved the plan. In January, 2009 a new board was sworn in the Duane Hoffman, Kevin Jensen, Kyle Norris, (named board president) and Roger Schmitt from Graettinger's board. Chelle Bisenius, Eugene Buhr and Galen Chicione, (named board vice-president), were from Terril's board. The seven member board will transition to a five member board eventually.
- Dan Mart again served as superintendent for Graettinger and Terril districts. He also serviced as Terril's 3-9 principal. There were two fourth grade sections necessitating the need for another classroom on the second floor. To accommodate this the business office was moved to the Tech building across the street. An unused classroom in the southwest corner was remodeled into an office/board meeting room.
- In FY2008 Iowa's surplus was \$196.4 million. During 2008 the economy took a down turn and revenues were estimated to decrease .5%. This lead the governor to issue an executive order for a 1.5% across-the-board cut in December, 2008. School districts retained the spending authority for the cut. For Terril, this was a loss of \$12,674. March, 2009 saw another decrease in the estimated state revenue. The state legislature reduced school foundation aid by \$40 million. Then Congress passed the federal American Recovery and Reinvestment Act (ARRA) which sent millions of dollars to all levels of government. The state used a portion of that money to backfill the March shortfall. By May, the district received its first ARRA funds for Title I and IDEA Part B (special education).
- March 10-12, 2009 the state site visit team was at Terril and Graettinger for the review the state requires every five years. The filed report was very complimentary and noted only minor deficiencies.
- The board adopted a new policy which requires all eighth graders to successfully make a portfolio presentation before being advanced to ninth grade.
- The district's overall financial position in the General Fund improved slightly compared to the prior year. The unreserved/undesignated general fund balance increased from \$347,490 to \$438,955. At 21 percent, the district's solvency ratio continues to be above the target range of 5% - 10% that most districts try to maintain.
- The certified enrollment count taken on October 1, 2008 was 160.1. This count represents a loss of 16.9 students compared to the October, 2007 count.

- In the 2008-09 school year we had fifty students open enroll out and four students open enroll in. This compares to forty-six opened enrolled out and seven students opened enrolled in for the prior year. Sixteen of the open enrolled out students were new to the district.
- The Special Education Program ended fiscal year 2009 with a small deficit balance. The program has ended the year with a positive balance in only six of the last seventeen years. In the 2008-09 school year there were six open enrolled out students that received special education services. In addition, three students were sent to the Okoboji School District for services we could not provide. For FY2009 \$139,267 in tuition was paid to other schools for special education tuition.
- Revenue receipts were up about three percent over last year. Due to the ARRA (stimulus) funds, federal revenue increased twenty-two percent. Property taxes increased thirteen percent.
- Capital project revenue totaled \$198,757 from local option sales tax in Clay, Dickinson, Emmet and Palo Alto counties.
- A five camera exterior security system was installed along with a keyless entry at the north entrance to the main building. All exterior doors were locked during the school day for added safety.
- Built in cabinets were installed on the second floor to complete that project. Room air conditioners were installed in the few rooms that still did not have them. A new heating system was installed in the gym with an option to add air conditioning in the future.

The following pages are the District's *Annual Financial Health Report*. It contains different indicators of the District's financial condition.

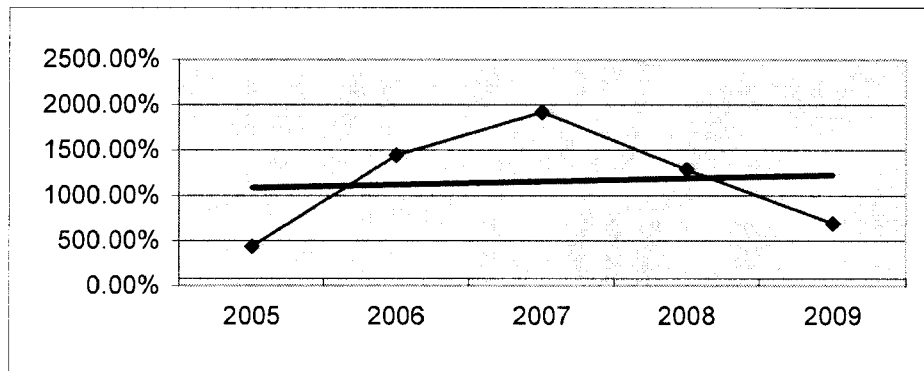
Assets to Liabilities Ratio

Formula:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Financial Information and Computation:

Year		Assets	Liabilities	Ratio
2005		\$302,156	\$68,982	438.02%
2006		\$250,652	\$17,308	1448.19%
2007		\$356,787	\$18,565	1921.83%
2008		\$388,120	\$30,123	1288.45%
2009		\$526,054	\$75,987	692.29%



Purpose:

Measures short - term solvency

Trend:

Up and down

Target:

Greater than 100%

Need/Concern:

When the assets/liabilities ratio is below 100% the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. Should the district seek a bond issue in the future this ratio needs to be greater than 100% to obtain the best bond rating possible.

Corrective Action:

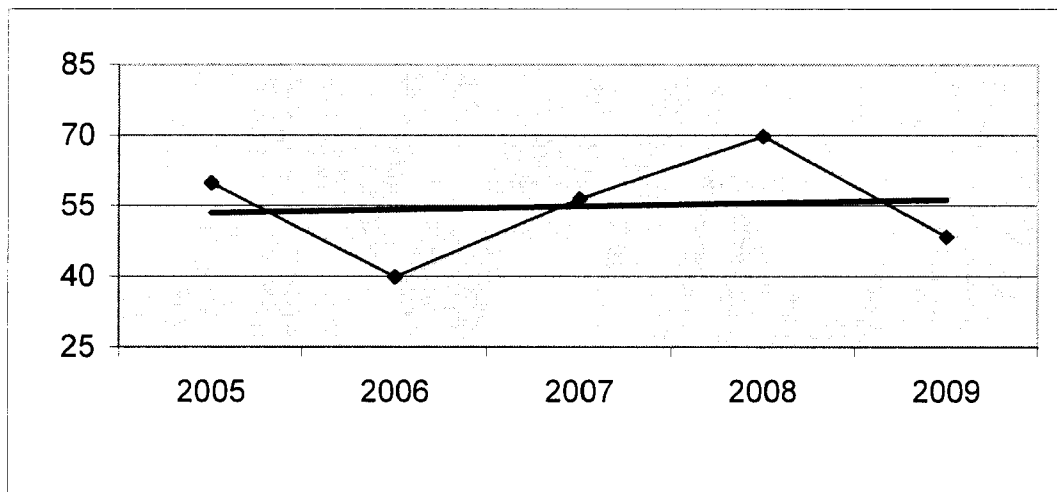
Although the district is in excellent condition in terms of short-term solvency, the downward trend indicates the reserves are shrinking.

Day's Net Cash Ratio

Formula:
$$\frac{\text{Cash \& Investments}}{\text{Average Daily Cash Expenditures}}$$

Financial Information and Computation:

Year	Cash & Investments	Total Expenditures	Daily (365) Expenditures	Ratio In Days
2005	\$302,156	\$1,842,354	\$5,048	60
2006	\$226,410	\$2,069,641	\$5,670	40
2007	\$313,321	\$2,025,450	\$5,549	56
2008	\$383,089	\$2,003,595	\$5,489	70
2009	\$264,329	\$1,993,260	\$5,461	48



Purpose: Measures short-term solvency and the ability to pay expenditures without receiving additional revenue. This calculation is especially important for districts that pay the last two payments of teachers' contract in July and August. In these two months no income is received from the state. Terril's teacher contracts are paid in full by June 30th each year.

Trend: Up and down

Target: 75 days

Need/Concern: If the downward trend continues, eventually the district will need to borrow funds to be able to cover expenses during times of minimal cashflow in.

Corrective Action: Levy for cash reserve, increase income and/or decrease expenses.

Contribution Ratio

Formula:
$$\frac{\text{Line Source Revenue}}{\text{Total Revenue}}$$

Financial Information and Computation:

FY 2008			FY 2009		
Line	Amount	Ratio	Line	Amount	Ratio
Source			Source		
Local	\$1,239,747	61.3%	Local	\$1,295,120	62.1%
State	\$713,988	35.3%	State	\$705,569	33.8%
Federal	\$69,635	3.4%	Federal	\$84,641	4.1%
Other	\$0	0.0%	Other	\$0	0.0%
Total	\$2,023,370	100.0%	Total	\$2,085,330	100.0%

Year	Property Tax/ Income Surtax	Other Local	State	Federal	Other	
2005	45.2%	8.8%	41.6%	4.4%	0.0%	100.0%
2006	36.5%	21.3%	39.2%	3.0%	0.0%	100.0%
2007	43.3%	21.2%	32.1%	3.3%	0.10%	100.0%
2008	38.1%	23.2%	35.3%	3.4%	0.00%	100.0%
2009	42.0%	20.1%	33.8%	4.1%	0.00%	100.0%

Purpose: Measures local taxation effort

Trend: Income from property and income taxes has continued to decline slightly, offset somewhat by increased state income. Starting in 2006 local income will show a marked increase due to whole grade sharing and new reporting rules which requires districts to show income in for whole grade shared students, offset by an expense for students sent to the partner district.

Target: This is controlled by the state legislature.

Need/Concern: As a district's property tax wealth grows the school aid formula shifts financial responsibility from the state to the local district.

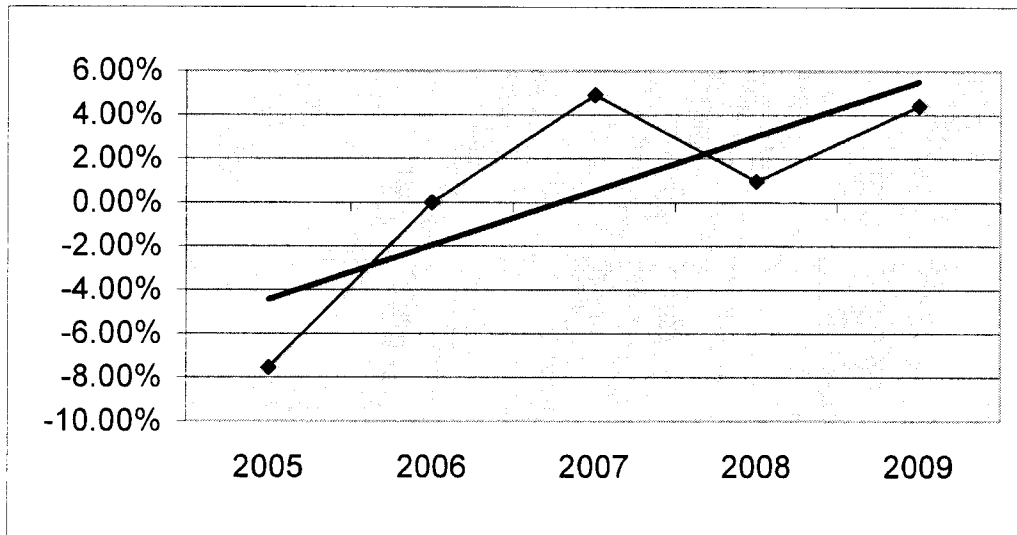
Corrective Action: NA

Revenue (Deficit) Margin Ratio

Formula:
$$\frac{\text{Revenue} - \text{Expenditures (Net Revenue)}}{\text{Total Revenue}}$$

Financial Information and Computation:

Year	Net revenue	Total Revenue	Ratio
2005	(\$129,261)	\$1,713,093	-7.55%
2006	\$170	\$2,069,811	0.01%
2007	\$104,878	\$2,130,328	4.92%
2008	\$19,775	\$2,023,370	0.98%
2009	\$92,070	\$2,085,330	4.42%



Purpose:	Measures operating results
Trend:	Up
Target:	Greater than zero
Need/Concern:	Full funding needed for budget revenue resources.
Corrective Action:	Increase revenue sources or reduce expenditures

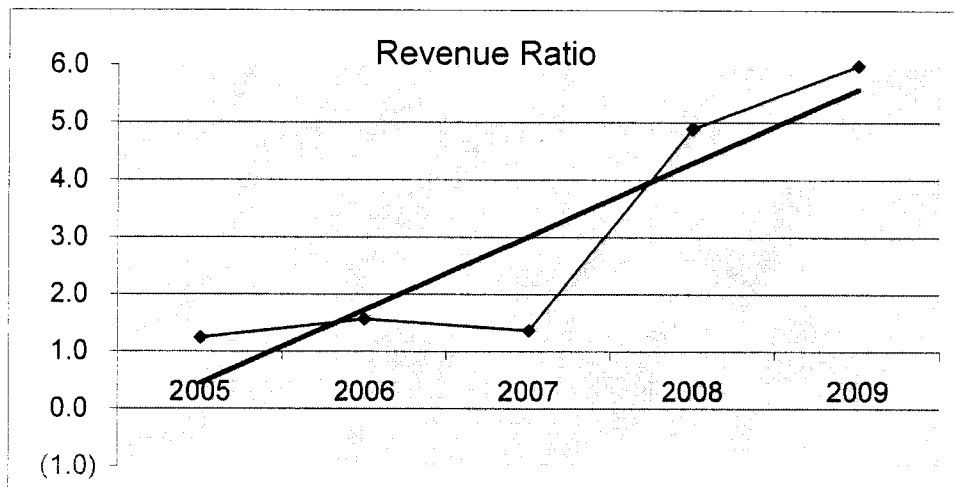
Revenue & Expenditures Change Ratio

Formula:

$$\frac{\text{Current Year Revenue} - \text{Prior Year Revenue}}{\text{Current Year Expenditures} - \text{Prior Year Expenditures}}$$

Financial Information and Computation:

Year		Revenue	Expenditures	Ratio	
				Rev	Exp
2005		\$1,713,093	\$1,842,354	1.2	1.0
2006		\$2,069,811	\$2,069,641	1.6	1.0
2007		\$2,130,328	\$2,025,450	1.4	1.0
2008		\$2,023,370	\$2,003,595	4.9	1.0
2009		\$2,085,330	\$1,993,260	6.0	1.0



Purpose:

Measures trends

Trend:

Up

Target:

Revenue ratio greater than or equal to expenditure ratio

Need/Concern:

Cause for concern exists when revenue change is less than the expenditure change from one fiscal year to the next. Long-term this has the effect of eroding the district's fund balance position.

Corrective Action:

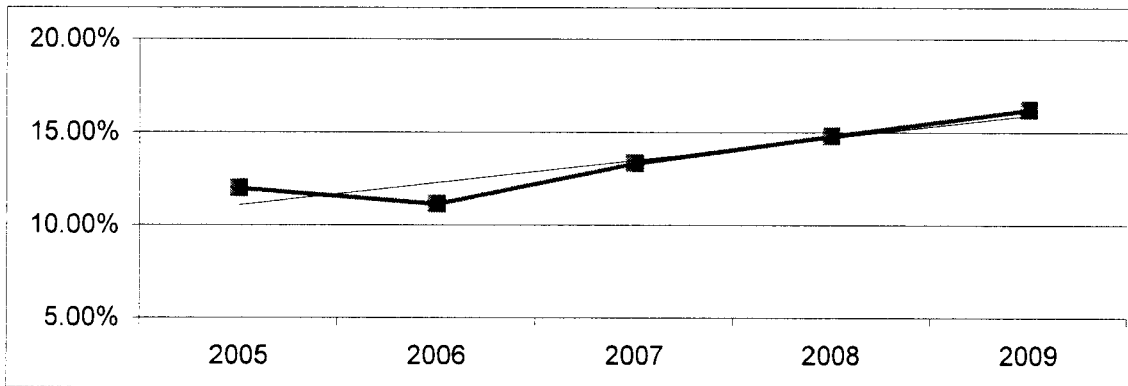
Spend less than revenue received in the year.

Unspent Balance Ratio

Formula:
$$\frac{\text{Unspent Spending Authority}}{\text{Maximum Budget Authority}}$$

Financial Information and Computation:

Year	Maximum Authorized	Regular Unspent Bal.	Unreserved Unspent Bal.	Regular UB Ratio	Unreserv. UB Ratio
2005	\$2,045,946	\$257,039	\$245,368	12.56%	11.99%
2006	\$2,398,779	\$275,370	\$267,197	11.48%	11.14%
2007	\$2,346,469	\$321,019	\$312,846	13.68%	13.33%
2008	\$2,359,247	\$357,272	\$349,099	15.14%	14.80%
2009	\$2,388,772	\$395,512	\$387,339	16.56%	16.21%



*2008 Estimated

Purpose: Measures the District's unbudgeted spending reserves

Trend: Up

Target: Unreserved unspent for short-term at 5-10 percent
Long-term 5 percent above accrued payroll liabilities

Need/Concern: An adequate level of budget reserves are important so the District can respond to emergencies. Conventional wisdom, when engaged in construction projects, suggests a minimum of 5% of the total project for contingency expenditures. The Operating Fund is no different.

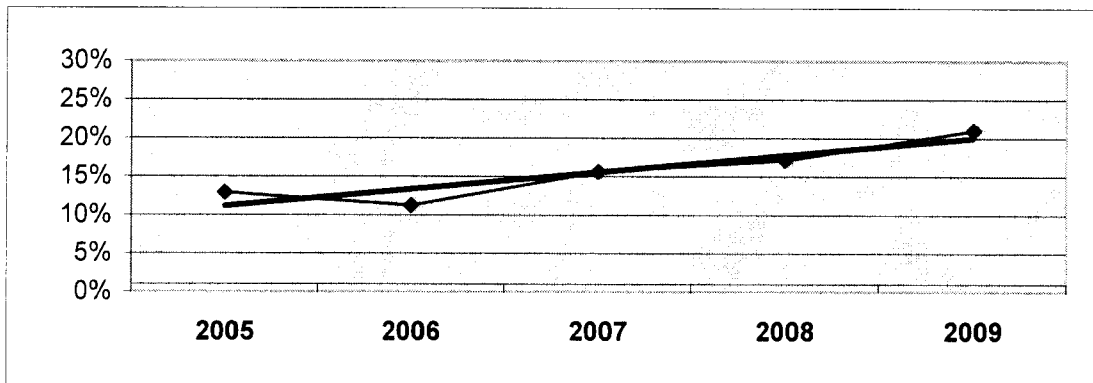
Corrective Action: Spend less than allowed each budget year.

Financial Solvency Ratio

Formula:
$$\frac{\text{Unreserved Undesignated Fund Balance (UUFB)}}{\text{Total General Fund Revenue}}$$

Financial Information and Computation:

Year		UUFB	Total Revenue	Ratio
2005		\$221,503	\$1,713,093	12.93%
2006		\$233,344	\$2,069,811	11.27%
2007		\$334,196	\$2,130,328	15.69%
2008		\$347,490	\$2,023,370	17.17%
2009		\$438,955	\$2,085,330	21.05%



Purpose: Measures by what percentage assets exceed liabilities

Trend: Up for four consecutive years

Target: Short-term greater than zero
Long-term over 5 percent

Need/Concern: The district is well above the 5% long-term target and reversed a four year downward trend the last three years.

REVENUE and EXPENSE COMPARISON

	FY05		FY06		FY07		FY08		FY09	
	\$	% Change	\$	% Change	\$	% Change	\$	% Change	\$	% Change
Revenues:										
Local sources	\$924,319	(\$59,577) -6.1%	\$1,196,975	\$272,656 29.5%	\$1,372,289	\$175,314 14.6%	\$1,239,747	(\$132,542) -9.7%	\$1,295,120	\$55,373 4.5%
State sources	\$712,627	\$30,554 4.5%	\$811,290	\$98,663 13.8%	\$684,377	(\$126,913) -15.6%	\$713,988	\$29,611 4.3%	\$705,569	(\$8,419) -1.2%
Federal sources	\$76,147	(\$1,811) -2.1%	\$61,546	(\$14,601) -19.2%	\$73,662	\$12,116 19.7%	\$69,635	(\$4,027) -5.5%	\$84,641	\$15,006 21.5%
Other sources	\$0	\$0 0.0%	\$0	\$0 0.0%	\$0	\$0 0.0%	\$0	\$0 0.0%	\$0	\$0 0.0%
Total revenues	\$1,713,093	(\$30,634) -1.8%	\$2,069,811	\$356,718 20.8%	\$2,130,328	\$60,517 2.9%	\$2,023,370	(\$106,958) -5.0%	\$2,085,330	\$61,960 3.1%
Expenditures:										
Instruction	\$1,266,695	(\$39,417) -3.0%	\$1,464,288	\$197,593 15.6%	\$1,457,771	(\$6,517) -0.4%	\$1,401,534	(\$56,237) -3.9%	\$1,403,204	\$1,670 0.1%
Support services	\$502,675	\$67,936 15.6%	\$519,393	\$16,718 3.3%	\$486,689	(\$32,704) -6.3%	\$535,269	\$48,580 10.0%	\$523,224	(\$12,045) -2.3%
Non-instructional	\$12,525	(\$2,609) -17.2%	\$0	(\$12,525) -100.0%	\$0	\$0 0.0%	\$0	\$0 0.0%	\$0	\$0 0.0%
Other expenditures	\$60,459	(\$1,371) -2.2%	\$85,960	\$25,501 42.2%	\$80,990	(\$4,970) -5.8%	\$66,792	(\$14,198) -17.5%	\$66,832	\$40 0.1%
Total expenditures	\$1,842,354	\$24,539 1.3%	\$2,069,641	\$227,287 12.3%	\$2,025,450	(\$44,191) -2.1%	\$2,003,595	(\$21,855) -1.1%	\$1,993,260	(\$10,335) -0.5%
Changes in fund balance:										
Excess/(deficiency) of revenues over/(under) expenditures	(\$129,261)	(\$55,173) 74.5%	\$170	\$129,431 100.1%	\$104,878	\$104,708 61592.9%	\$19,775	(\$85,103) 81.1%	\$92,070	\$72,295 365.6%

BALANCE SHEET COMPARISONS

Assets:	FY05	\$ Change	% Change	FY06	\$ Change	% Change	FY07	\$ Change	% Change	FY08	\$ Change	% Change	FY09*	\$ Change	% Change
Cash & Investments	\$ 258,297	\$ (70,006)	-21.3%	\$ 191,358	\$ (66,939)	-25.9%	\$ 308,045	\$ 116,687	61.0%	\$ 307,722	\$ (323)	-0.1%	\$ 264,329	\$ (43,393)	-14.1%
Receivables	\$ 43,859	\$ (5,808)	-11.7%	\$ 59,294	\$ 15,435	35.2%	\$ 48,742	\$ (10,552)	-17.8%	\$ 75,367	\$ 26,625	54.6%	\$ 249,221	\$ 173,854	230.7%
Inventories	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Prepaid Expenses	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ 5,031	\$ 5,031	0.0%	\$ 4,076	\$ (955)	0.0%
Other Assets	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Assets	\$ 302,156	\$ (75,814)	-20.1%	\$ 250,652	\$ (51,504)	-17.0%	\$ 356,787	\$ 106,135	42.3%	\$ 388,120	\$ 31,333	8.8%	\$ 517,626	\$ 129,506	33.4%
Liabilities:															
Payables	\$ 65,104	\$ 52,924	434.5%	\$ 2,220	\$ (62,884)	-96.6%	\$ 6,768	\$ 4,548	204.9%	\$ 20,350	\$ 13,582	200.7%	\$ 70,175	\$ 49,825	244.8%
Payroll	\$ 3,878	\$ 523	15.6%	\$ 6,915	\$ 3,037	78.3%	\$ 7,413	\$ 498	7.2%	\$ 9,107	\$ 1,694	22.9%	\$ 3,270	\$ (5,837)	-64.1%
Deferred Revenues	\$ 11,671	\$ (4,791)	0.0%	\$ 8,173	\$ (3,498)	0.0%	\$ 4,384	\$ (3,789)	0.0%	\$ 666	\$ (3,718)	0.0%	\$ 2,542	\$ 1,876	0.0%
Other Liabilities	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Total Liabilities	\$ 80,653	\$ 48,656	152.1%	\$ 17,308	\$ (63,345)	-78.5%	\$ 18,565	\$ 1,257	7.3%	\$ 30,123	\$ 11,558	62.3%	\$ 75,987	\$ 45,864	152.3%
Fund Balance:															
Reserved															
Unreserved	\$ 221,503	\$ (124,470)	36.0%	\$ 233,344	\$ 11,841	5.3%	\$ 4,026	\$ 4,026	100.0%	\$ 10,507	\$ 6,481	161.0%	\$ 11,113	\$ 606	5.8%
Total Fund Balance	\$ 302,156	\$ (75,814)	20.1%	\$ 250,652	\$ (51,504)	-17.0%	\$ 356,787	\$ 106,135	42.3%	\$ 388,120	\$ 31,333	8.8%	\$ 526,055	\$ 137,935	35.5%

* In FY2009 districts were required to set up property & income surtaxes as receivables and liabilities for the first time.
Those figures are NOT included here in order to provide a better comparison to previous years.

GENERAL FUND

FINANCIAL INDICATOR SUMMARY SHEET

	2005	2006	2007	2008	2009
Balance Sheet Comparison % of Change between years:					
Assets	-20.1%	-17.0%	42.3%	8.8%	33.4%
Liabilities	152.1%	-78.5%	7.3%	62.3%	152.3%
Fund Balance	20.1%	-17.0%	42.3%	8.8%	35.5%
Rev. & Expend. Comparison % of Change between years;					
Revenues	-1.8%	20.8%	2.9%	-5.0%	3.1%
Expenditures	1.3%	12.3%	-2.1%	-1.1%	-0.5%
Fund Balance	74.5%	100.1%	61592.9%	81.1%	365.6%
Financial Solvency Ratio , District Equity Position	12.93%	11.27%	15.69%	17.17%	21.05%
Unspent Balance Ratio, Unbudgeted Spending Reserves:					
Regular	12.56%	11.48%	13.68%	15.14%	16.56%
Unreserved	11.99%	11.14%	13.33%	14.80%	16.21%
Rev. & Expend. Change Ratio Measures Trends	1.2: 1	1.6:1	1.4:1	4.9:1	6:1
Rev. (Deficit) Margin Ratio Measures Operating Results	-7.55%	0.01%	4.92%	0.98%	4.42%
Contribution Ratio, Measures Local Taxation Effort:					
Property Tax / Income Surtax	45.2%	36.5%	43.3%	38.1%	42.0%
Other Local	8.8%	21.3%	21.2%	23.2%	20.1%
State	41.6%	39.2%	32.1%	35.3%	33.8%
Federal	4.4%	3.0%	3.3%	3.4%	4.1%
Other	0.0%	0.0%	0.1%	0.0%	0.0%
Day's Net Cash Ratio Short Term Solvency (Days)	60	40	56	70	48
Assets to Liabilities Ratio - Measures Short-term Solvency	438.02%	1448.19%	1921.83%	1288.45%	141.86%

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Terril Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Terril Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Terril Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Terril Community School District Annual Financial Report

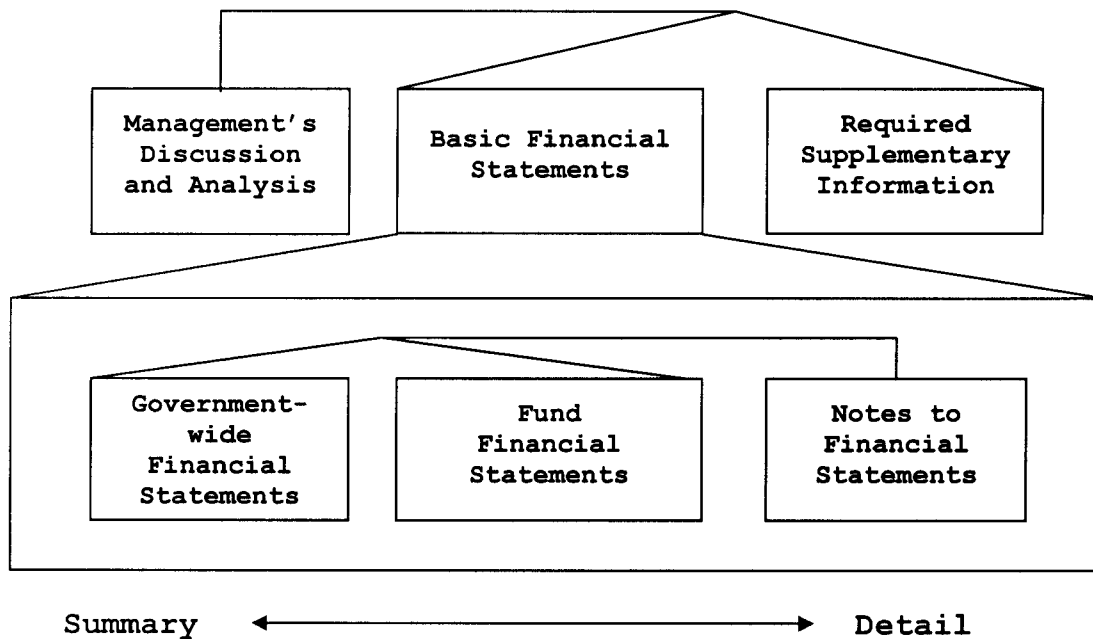


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to treat all funds as "major" for clarity of reporting.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses, changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Agency Fund - The District accounts for funds held in a custodial capacity.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Current assets	\$ 1,898	1,571	6	6	1,904	1,577	20.74%
Capital assets	<u>1,524</u>	<u>1,576</u>	<u>-</u>	<u>-</u>	<u>1,524</u>	<u>1,576</u>	<u>-3.30%</u>
Total assets	<u>3,422</u>	<u>3,147</u>	<u>6</u>	<u>6</u>	<u>3,428</u>	<u>3,153</u>	<u>8.72%</u>
Current liabilities	1,085	950	1	-	1,086	950	14.32%
Non-current liabilities	<u>63</u>	<u>90</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>90</u>	<u>-30.00%</u>
Total liabilities	<u>1,148</u>	<u>1,040</u>	<u>1</u>	<u>-</u>	<u>1,149</u>	<u>1,040</u>	<u>10.48%</u>
Net Assets							
Invested in capital assets, net of related debt	1,524	1,576	-	-	1,524	1,576	-3.30%
Restricted	311	202	-	-	311	202	53.96%
Unrestricted	<u>439</u>	<u>329</u>	<u>5</u>	<u>6</u>	<u>444</u>	<u>335</u>	<u>32.54%</u>
Total net assets	<u>\$ 2,274</u>	<u>2,107</u>	<u>5</u>	<u>6</u>	<u>2,279</u>	<u>2,113</u>	<u>7.86%</u>

The District's combined net assets increased by almost 4%, or approximately \$79,000 over the prior year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$91,000 or 37%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business type Activities		Total School District		Total Change	
2009	2008	2009	2008	2009	2008	2008-2009	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 380	430	38	39	418	469	-10.87%
Operating grants, contributions and restricted interest	295	275	38	40	333	315	5.71%
General revenues:							
Property tax	911	810	-	-	911	810	12.47%
Income surtax	70	62	-	-	70	62	12.90%
Statewide/Local option sales tax	199	194	-	-	199	194	2.58%
Unrestricted state grants	512	532	-	-	512	532	-3.76%
Unrestricted investment earnings	8	19	-	-	8	19	-57.89%
Other	14	3	-	-	14	3	366.67%
Total revenues	<u>2,389</u>	<u>2,325</u>	<u>76</u>	<u>79</u>	<u>2,465</u>	<u>2,404</u>	<u>2.54%</u>
Program expenses:							
Governmental activities:							
Instruction	1,455	1,430	-	-	1,455	1,430	1.75%
Support Services	551	556	-	-	551	556	-0.90%
Non-instructional programs	1	2	77	76	78	78	0.00%
Other expenses	215	262	-	-	215	262	-17.94%
Total expenses	<u>2,222</u>	<u>2,250</u>	<u>77</u>	<u>76</u>	<u>2,299</u>	<u>2,326</u>	<u>-1.16%</u>
Change in net assets	<u>\$ 167</u>	<u>75</u>	<u>(1)</u>	<u>3</u>	<u>166</u>	<u>78</u>	<u>112.82%</u>

Property tax and unrestricted state grants account for 56% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,324,826 and expenses were \$2,250,259, for the year ended June 30, 2009.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
		Change			Change	
	2009	2008	2008-2009	2009	2008	2008-2009
Instruction	\$ 1,455	1,430	1.75%	854	802	6.48%
Support Services	551	556	-0.90%	544	546	-0.37%
Noninstructional programs	1	2	-50.00%	1	2	-50.00%
Other expenses	215	262	-17.94%	148	195	-24.10%
Totals	<u>\$ 2,222</u>	<u>2,250</u>	<u>-1.24%</u>	<u>1,547</u>	<u>1,545</u>	<u>0.13%</u>

For year ended June 30, 2009:

- The cost financed by users of the District's programs was \$429,793.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$185,983.
- The net cost of governmental activities was financed with \$809,465 in property and other taxes and \$532,199 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2009 were \$79,821 and expenses totaled \$76,467. The District's business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, Terril Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$569,048, a four percent increase over last year's ending fund balances of \$548,826.

Governmental Fund Highlights

- The District's General Fund financial status increased this year. The District carefully monitors discretionary spending to avoid decreases in fund balances. This becomes more difficult every year due to state's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) is no longer levied as a result of the District using sales tax funds for these purposes.
- The Capital Projects fund increased in the fiscal year ending June 30, 2009. This money is being used for many of the same purposes as the District's PPEL levy.

Proprietary Fund Highlights

The School Nutrition Fund increased by \$3,354 this year. No capital contribution from the General Fund was required as has been done in past years.

BUDGETARY HIGHLIGHTS

The District's receipts were \$92,210 less than budgeted receipts, a variance of 4%. The most significant variance resulted from the District receiving less in miscellaneous and state sourced revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$1,576,179, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$146,030.

The original cost of the District's capital assets was \$2,315,188. Governmental funds account for \$2,265,075, with the remainder of \$50,113 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Land	\$ 201	201	-	-	201	201	0.00%
Buildings and improvements	886	859	-	-	886	859	3.14%
Furniture and equipment	437	516	-	-	437	516	-15.31%
Totals	<u>\$ 1,524</u>	<u>1,576</u>	<u>-</u>	<u>-</u>	<u>1,524</u>	<u>1,576</u>	<u>-3.30%</u>

Long-Term Debt

The District has no long-term debt with the exception of early retirement packages.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence out the part of the administration and board of education.

- Reorganization with Graettinger has been approved beginning with FY2011.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Oleson, District Secretary/Treasurer, Terril Community School District, PO Box 128, Terril, IA 51364-0128.

Basic Financial Statements

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities School Nutrition	Total
Assets			
Cash and pooled investments	\$ 533,378	1,462	534,840
Receivables:			
Property tax:			
Current year	9,936	-	9,936
Succeeding year	1,008,102	-	1,008,102
Income surtax - succeeding year	55,155	-	55,155
Due from other governments	277,731	-	277,731
Other receivables	6,087	-	6,087
Inventories	-	3,412	3,412
Prepaid expenses	7,450	454	7,904
Capital assets, net of accumulated depreciation	1,524,485	188	1,524,673
Total assets	<u>3,422,324</u>	<u>5,516</u>	<u>3,427,840</u>
Liabilities			
Accounts payable	70,875	742	71,617
Accrued payroll and benefits	3,270	-	3,270
Deferred revenue:			
Succeeding year property tax	1,008,102	-	1,008,102
Federal programs	2,542	-	2,542
Long-term liabilities:			
Portion due within one year:			
Early retirement	16,825	-	16,825
Portion due after one year:			
Early retirement	46,191	-	46,191
Total liabilities	<u>1,147,805</u>	<u>742</u>	<u>1,082,989</u>
Net assets			
Invested in capital assets, net of related debt	1,524,485	188	1,524,673
Restricted for:			
Management levy	35,363	-	35,363
Physical plant and equipment levy	111,489	-	111,489
Capital projects	153,289	-	153,289
Categorical funding	11,112	-	11,112
Unrestricted	438,781	4,586	443,367
Total net assets	<u>\$ 2,274,519</u>	<u>4,774</u>	<u>2,279,293</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total
Functions/Programs:				
Governmental activities:				
Instruction:	\$ 1,454,642	379,808	220,390	(854,444)
Support services:				
Student services	14,419	-	-	(14,419)
Instructional staff services	43,808	-	-	(43,808)
Administration services	255,638	-	-	(255,638)
Operation and maintenance of plant services	132,686	-	7,120	(125,566)
Transportation services	104,719	-	-	(104,719)
	551,270	-	7,120	(544,150)
Noninstructional programs:				
Food service operations	480	-	-	(480)
Other expenditures:				
AEA flowthrough	66,832	-	66,832	-
Facilities acquisition and construction	3,117	-	976	(2,141)
Depreciation (unallocated)*	145,432	-	-	(145,432)
	215,381	-	67,808	(147,573)
Total governmental activities	2,221,773	379,808	295,318	(1,546,647)

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:					
Non-instructional programs:					
Nutrition services	76,704	38,174	-	(1,023)	(1,023)
Total	<u>\$ 2,298,477</u>	<u>417,315</u>	<u>(1,546,647)</u>	<u>(1,023)</u>	<u>(1,547,670)</u>
General Revenues:					
Property tax levied for:					
General purposes			\$ 825,571	-	825,571
Management levy			85,057	-	85,057
Income surtax			69,609	-	69,609
Statewide sales and services tax			198,758	-	198,758
Unrestricted state grants			512,289	-	512,289
Unrestricted investment earnings			8,267	-	8,267
Other			14,411	-	14,411
Total general revenues			<u>1,713,962</u>	<u>-</u>	<u>1,713,962</u>
Change in net assets			167,315	(1,023)	166,292
Net assets beginning of year			<u>2,107,204</u>	<u>5,797</u>	<u>2,113,001</u>
Net assets end of year			<u>\$ 2,274,519</u>	<u>4,774</u>	<u>2,279,293</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

Assets

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Cash and pooled investments	\$ 264,329	8,143	31,119	111,489	118,298	533,378
Receivables:						
Property tax:						
Current year	9,008	-	928	-	-	9,936
Succeeding year	938,102	-	70,000	-	-	1,008,102
Income surtax - succeeding year	55,155	-	-	-	-	55,155
Due from other governments	242,554	-	186	-	34,991	277,731
Other receivables	6,087	-	-	-	-	6,087
Prepaid expenses	4,076	-	3,374	-	-	7,450
Total assets	\$ 1,519,311	8,143	105,607	111,489	153,289	1,897,839

Liabilities and Fund Balance

Liabilities:						
Accounts payable	\$ 70,175	456	244	-	-	70,875
Accrued payroll and benefits	3,270	-	-	-	-	3,270
Deferred revenue:						
Succeeding year property tax	938,102	-	70,000	-	-	1,008,102
Succeeding year income surtax	55,155	-	-	-	-	55,155
Federal programs	2,542	-	-	-	-	2,542
Total liabilities	1,069,244	456	70,244	-	-	1,139,944
Fund balances:						
Reserved for capital projects	-	-	-	-	153,289	153,289
Reserved for categorical funding	11,112	-	-	-	-	11,112
Unreserved	438,955	7,687	35,363	111,489	-	593,494
Total fund balances	450,067	7,687	35,363	111,489	153,289	757,895
Total liabilities and fund balances	\$ 1,519,311	8,143	105,607	111,489	153,289	1,897,839

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2009

Total fund balances of governmental funds (Exhibit C)	\$ 757,895
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**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Income surtax receivable at June 30, 2009 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	55,155
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,524,485
--	-----------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
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Early retirement	<u>(63,016)</u>
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Net assets of governmental activities (Exhibit A)	<u>\$ 2,274,519</u>
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TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Revenues:						
Local sources:						
Local tax	\$ 892,498	-	85,057	-	198,758	1,176,313
Tuition	307,490	-	-	-	-	307,490
Other	95,131	9,165	5,283	1,608	976	112,163
State sources	705,570	-	43	-	-	705,613
Federal sources	84,641	-	186	-	-	84,827
Total revenues	<u>2,085,330</u>	<u>9,165</u>	<u>90,569</u>	<u>1,608</u>	<u>199,734</u>	<u>2,386,406</u>
Expenditures:						
Current:						
Instruction:	<u>1,403,204</u>	<u>10,145</u>	<u>34,124</u>	<u>-</u>	<u>34,415</u>	<u>1,481,888</u>
Support services:						
Student services	14,419	-	-	-	-	14,419
Instructional staff services	42,909	-	-	-	899	43,808
Administration services	234,060	-	3,894	-	17,684	255,638
Operation and maintenance of plant services	134,047	-	20,986	-	-	155,033
Transportation services	97,789	73	6,857	-	-	104,719
	<u>523,224</u>	<u>73</u>	<u>31,737</u>	<u>-</u>	<u>18,583</u>	<u>573,617</u>
Noninstructional programs:						
Food service operations	-	-	480	-	-	480

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Other expenditures:						
AEA flowthrough	66,832	-	-	-	-	66,832
Facilities acquisition and construction	-	-	-	-	74,742	74,742
	66,832	-	-	-	74,742	141,574
Total expenditures	1,993,260	10,218	66,341	-	127,740	2,197,559
Net change in fund balance	92,070	(1,053)	24,228	1,608	71,994	188,847
Fund balances beginning of year	357,997	8,740	11,135	109,881	81,295	569,048
Fund balances end of year	\$ 450,067	7,687	35,363	111,489	153,289	757,895

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit E) \$ 188,847

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Income surtaxes not collected for several months after the District's
fiscal year ends are not considered "available" revenues in the
governmental funds and are included as deferred revenues. They are,
however, recorded as revenues in the statement of activities 2,682

Capital outlays to purchase or build capital assets are reported in
governmental funds as expenditures. However, those costs are not
reported in the Statement of Net Activities and are allocated over their
estimated useful lives as depreciation expense in the Statement of
Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	93,972
Depreciation expense	(145,432)

Some expenses reported in the Statement of Activities do not require the use of
current financial resources and, therefore, are not reported as expenditures
in the governmental funds, as follows:

Early retirement	<u>27,246</u>
------------------	---------------

Change in net assets of governmental activities (Exhibit B) \$ 167,315

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ <u>37,507</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	28,650
Benefits	11,551
Services	1,335
Supplies	35,122
Depreciation	<u>46</u>
Total operating expenses	<u>76,704</u>
Operating (loss)	<u>(39,197)</u>
Non-operating revenues:	
State sources	817
Federal sources	<u>37,357</u>
	<u>38,174</u>
Changes in net assets	(1,023)
Net assets beginning of year	<u>5,797</u>
Net assets end of year	<u>\$ <u>4,774</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 37,709
Cash payments to employees for services	(40,244)
Cash payments to suppliers for goods or services	<u>(30,535)</u>
Net cash (used by) operating activities	<u>(33,070)</u>
Cash flows from non-capital financing activities:	
State grants received	817
Federal grants received	<u>31,457</u>
Net cash provided by non-capital financing activities	<u>32,274</u>
Net increase in cash and cash equivalents	(796)
Cash and cash equivalents beginning of year	<u>2,258</u>
Cash and cash equivalents end of year	<u><u>\$ 1,462</u></u>
Reconciliation of operating (loss) to net cash used by operating activities:	
Operating (loss)	\$ (39,197)
Adjustments to reconcile operating (loss) to net cash provided by (used by) operating activities:	
Depreciation	46
Commodities used	5,900
Decrease in other receivables	202
(Increase) in inventory	(995)
Decrease in prepaid expenses	275
Increase in accounts payable	742
(Decrease) in accrued payroll and benefits	<u>(43)</u>
	<u><u>\$ (33,070)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received federal commodities valued at \$5,900.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Agency Funds		
	<u>Self-Insurance</u>	<u>DB Kids</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 46,422	761	47,183
Liabilities			
Other payables	<u>46,422</u>	<u>761</u>	<u>47,183</u>
Net Assets			
Reserved for special purposes	<u>\$ -</u>	<u>-</u>	<u>-</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Agency Funds		
	Self-Insurance	DB Kids	Total
Additions:			
Local sources:			
Miscellaneous	\$ 31,650	200	31,850
Total additions	<u>31,650</u>	<u>200</u>	<u>31,850</u>
Deductions:			
Support services:			
Other expenses	<u>31,650</u>	<u>200</u>	<u>31,850</u>
Total deductions	<u>31,650</u>	<u>200</u>	<u>31,850</u>
Change in net assets	-	-	-
Net assets beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

Terril Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Terril, Iowa, and agricultural area in Palo Alto, Dickinson, Emmett and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis. The District also contracts, as explained in Note 6, with the Graettinger Community School District to educate students in all grades.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Terril Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Terril Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay and Dickinson County Assessor Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to report all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise Fund, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District in a custodial relationship.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent federal program revenue.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2009.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2009.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 201,375	408	-	201,783
Capital assets being depreciated:				
Buildings and improvements	1,249,608	71,217	-	1,320,825
Furniture and equipment	814,092	22,347	-	836,439
Total capital assets being depreciated	2,063,700	93,564	-	2,157,264
Less accumulated depreciation for:				
Buildings and improvements	390,788	45,039	-	435,827
Furniture and equipment	298,342	100,393	-	398,735
Total accumulated depreciation	689,130	145,432	-	834,562
Total capital assets being depreciated, net	1,374,570	(51,868)	-	1,322,702
Governmental activities, capital assets, net	\$ 1,575,945	(51,460)	-	1,524,485
Business type activities:				
Furniture and equipment	50,113	-	-	50,113
Less accumulated depreciation	49,879	46	-	49,925
Business type activities capital assets, net	\$ 234	(46)	-	188
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 145,432
Business Type activities:				
Food service operations				\$ 46

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$45,028, \$45,014, and \$43,750 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$66,832 for year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Two-Way Whole Grade Sharing

The District has entered into a contract with Graettinger Community School District to complete the academic and extra-curricular needs of students in all grades. All regular education students in grades kindergarten through two and nine through twelve attend the Graettinger Community School District. All regular education students in grades three through eight attend the Terril Community School District.

(7) Reorganization

The voters of the District approved reorganization with the Graettinger Community School District effective July 1, 2010.

Required Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 1,595,966	37,507	1,633,473	1,441,179	1,441,179	192,294
State sources	705,613	817	706,430	735,348	735,348	(28,918)
Federal sources	84,827	37,357	122,184	107,130	107,130	15,054
Total revenues	<u>2,386,406</u>	<u>75,681</u>	<u>2,462,087</u>	<u>2,283,657</u>	<u>2,283,657</u>	<u>178,430</u>
Expenditures/expenses:						
Instruction	1,481,888	-	1,481,888	1,605,000	1,605,000	123,112
Support services	573,617	-	573,617	790,800	790,800	217,183
Non-instructional programs	480	76,704	77,184	95,650	95,650	18,466
Other expenditures	141,574	-	141,574	287,945	287,945	146,371
Total expenditures/expenses	<u>2,197,559</u>	<u>76,704</u>	<u>2,274,263</u>	<u>2,779,395</u>	<u>2,779,395</u>	<u>505,132</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	188,847	(1,023)	187,824	(495,738)	(495,738)	683,562
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	188,847	(1,023)	187,824	(495,738)	(495,738)	683,562
Balance beginning of year	569,048	5,797	574,845	506,787	506,787	68,058
Balance end of year	<u>\$ 757,895</u>	<u>4,774</u>	<u>762,669</u>	<u>11,049</u>	<u>11,049</u>	<u>751,620</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2009, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 49	110	107	52
MS Boys Basketball	504	822	1,326	-
MS Football	120	445	565	-
MS Girls Basketball	908	981	1,889	-
MS Softball	789	577	1,039	327
MS Track	250	-	-	250
Middle School Field Trips	3,074	1,013	1,162	2,925
Student Council	3,046	5,217	4,130	4,133
Total	\$ 8,740	9,165	10,218	7,687

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Seven Years

	Modified Accrual Basis						
	2009	2008	2007	2006	2005	2004	2003
Revenues:							
Local sources:							
Local tax	\$ 1,176,313	1,065,492	1,218,913	1,007,910	1,095,780	1,179,848	1,184,675
Tuition	307,490	347,885	276,920	317,467	78,458	52,315	80,404
Other	112,163	127,386	210,303	130,047	100,979	90,826	102,719
State sources	705,613	714,035	684,422	811,394	737,675	682,605	671,212
Federal sources	84,827	70,028	71,089	68,922	76,147	98,026	96,339
Total	<u>\$ 2,386,406</u>	<u>2,324,826</u>	<u>2,461,647</u>	<u>2,335,740</u>	<u>2,089,039</u>	<u>2,103,620</u>	<u>2,135,349</u>
Expenditures:							
Instruction	\$ 1,481,888	1,494,909	1,549,065	1,533,767	1,388,606	1,374,477	1,421,266
Support services:							
Student	14,419	4,229	1,565	994	30,246	15,119	14,039
Instructional staff	43,808	18,419	22,410	44,685	10,783	29,658	25,134
Administration	255,638	268,680	258,928	250,018	214,077	182,554	171,362
Operation and maintenance of plant	155,033	154,561	126,643	145,530	114,742	118,167	93,032
Transportation	104,719	180,577	214,374	120,721	183,805	128,703	97,045
Noninstructional programs:							
Food service operations	480	2,029	14,605	10,260	28,861	16,440	12,376
Other expenditures:							
Facilities acquisition	74,742	115,319	109,923	116,438	343,903	128,982	7,464
Debt service:							
Principal	-	-	-	-	-	275,000	-
Interest and other charges	-	-	-	-	-	11,440	12,650
AEA flowthrough	66,832	65,881	63,716	63,577	60,459	61,830	64,215
Total	<u>\$ 2,197,559</u>	<u>2,304,604</u>	<u>2,361,229</u>	<u>2,285,990</u>	<u>2,375,482</u>	<u>2,342,370</u>	<u>1,918,583</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
with Accordance with Government Auditing Standards**

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Terril Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Terril Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Terril Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Terril Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Terril Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Terril Community School District's financial statements that is more than inconsequential will not be prevented or detected by Terril Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Terril Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

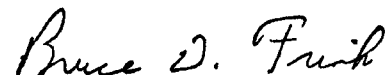
As part of obtaining reasonable assurance about whether Terril Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters to be described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Terril Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Terril Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Terril Community School District and other parties to whom Terril Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Terril Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

February 22, 2010

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

☺
No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-09 Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 112, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - Expenditures for the year ended June 30, 2009, did not exceed the certified budget amounts in any of the four functions.
- II-B-09 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-09 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-H-09 Certified Annual Report - The Certified Annual Report was certified timely to the Department of Education.
- II-I-09 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		\$	-
Statewide sales and services tax revenue			198,758
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$52,998		
Other improvements	<u>74,742</u>		<u>127,740</u>
Ending balance		\$	<u>71,018</u>